

Water Financing in Vietnam

Challenges and Perspectives

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National Workshop on Water Financing

(Hanoi, 24th February 2005)

- 50 participants
- Five presentations on rural and urban water supply & sanitation, irrigation, hydropower, environment protection
- Group discussions on water financing

Overview of Presentation

- Overview of Water Sector in Vietnam
- Financing Water Infrastructure Development and Management
- Issues & Challenges
- Towards Water Sector Reform
- Concluding Remarks

Overview of Water Sector in Vietnam

State management:

- **MARD:** Irrigation, Drainage, Rural water supply & sanitation, Flood management
- **MoC:** Urban water supply & sewage
- **MoT:** Waterway transportation
- **MONRE:** Environment & Water Resources Management

Service Providers

- **“Public service enterprises”:**
 - Large irrigation systems, urban water supply systems, central rural water supply schemes
 - Main players, get subsidies from Government
- **Private companies:**
 - Small urban/rural water supply schemes
 - A limited number but development trend is promising
- **User groups:**
 - Small-scale irrigation/ water supply schemes, on-farm irrigation facilities
 - Diverse, facing difficulty in regulatory framework

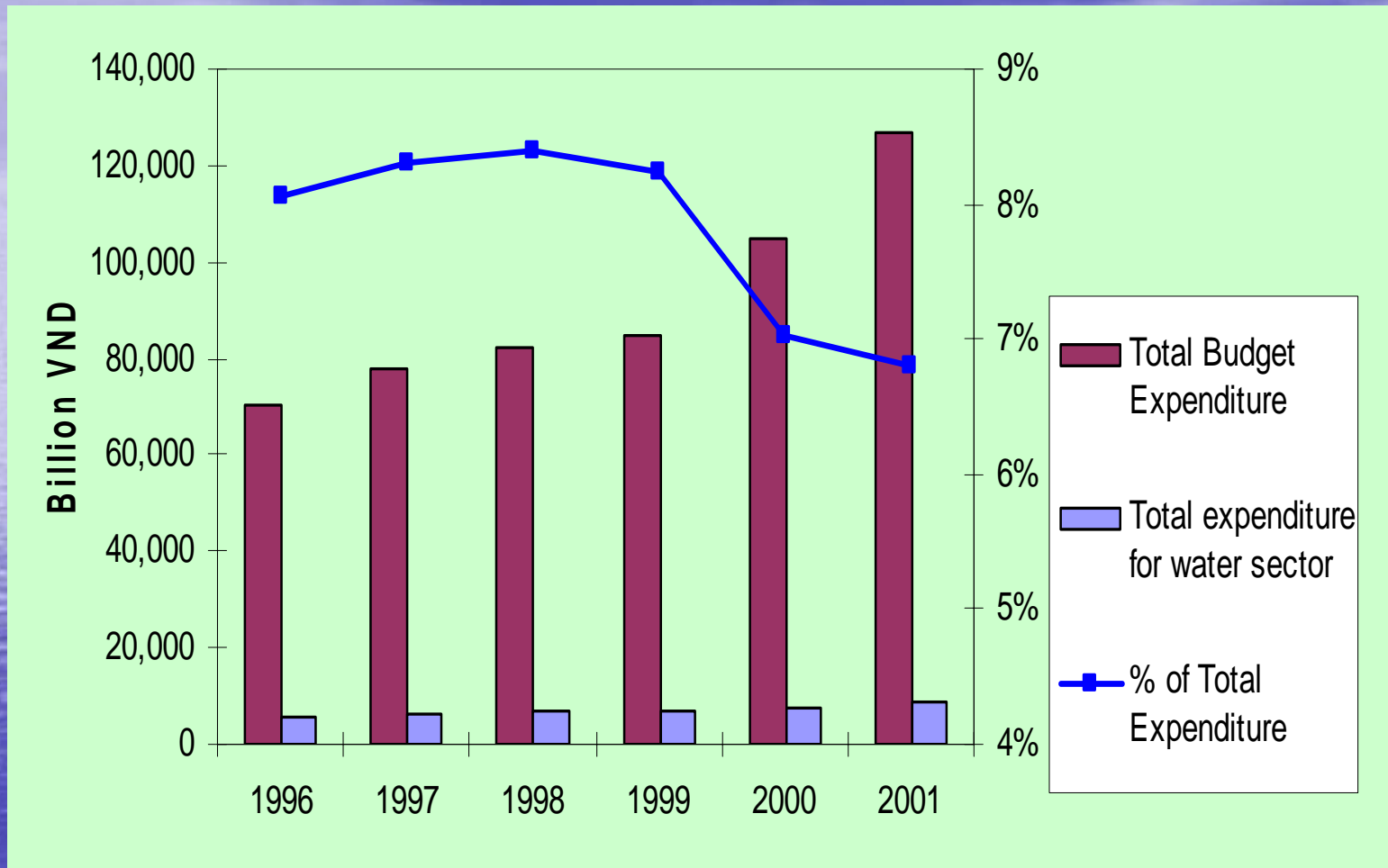
- Irrigation: 3.45 mill. hectares of cultivated land irrigated
- Urban WSS coverage: ~65%
- Rural WSS coverage: 61%

Financing Water Infrastructure Development and Management

Funding sources:

- **State budget, ODA:** construction & repair of large projects, material provision for community-built works, subsidies for O&M, credit funds, technical assistance, training.
- **Private investments:** small projects.
- **Local/users contribution:** tariffs, construction of small projects, contribution to large projects (i.e. on-farm irrigation facilities, connect houses to service-pipeline, etc.).

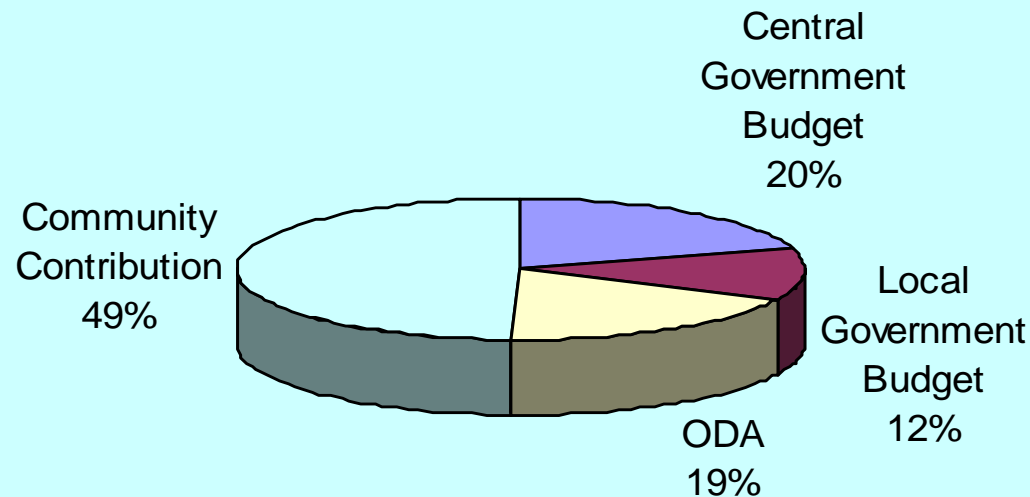
Public Expenditure for Water Sector



Although annual expenditure for water sector increased in absolute term, it's proportion of total public expenditure has been declining.

Investment in Rural Water Supply and Sanitation

Funding Sources for Rural Water Supply and Sanitation Investment (1999-2003)



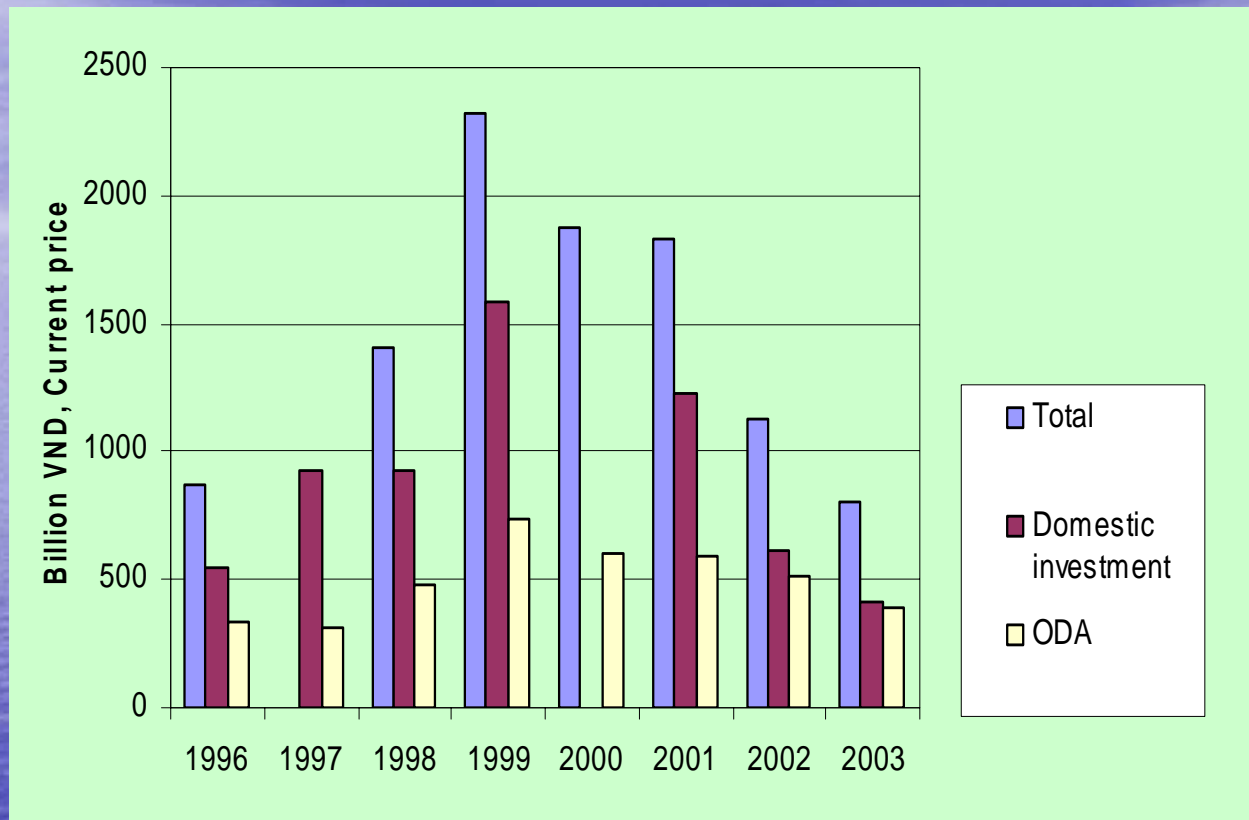
- **1980-1997 (18 years): 1,000 Bil. VND**
- **1998-2004 (5 years): 6,395 Bil. VND**

Sharp increase in investment in RWSS.
Community Contribution makes high proportion of total investment in rural water supply and sanitation.

Investment in Urban Water Supply and Sewage

- Over 15,000 Bil. VND invested in 170 Urban Water Supply and Sewage projects in past 10 years.
- Urban domestic wastewater treatment: only one treatment station under construction in HCM City.
- ODA and loans: 85% of total investment.
- Currently imposed wastewater discharge fee in big cities: 10% on top of clean water bill

Investment in Irrigation Infrastructure



- Remarkably declined since 1999, ODA accounted for about 45% of total investment
- Shift from building new irrigation works to upgrading existing works. Investment in upgrading existing works increased from 28% in 1996 to 48% in 2000 and 64% in 2003

Issues and Challenges

- Demanding objectives: by 2020
 - Urban water supply and sewage: 100% coverage (180 l/capita/day)
 - Rural water supply and sanitation: 100% coverage (60 l/capita/day)
 - Irrigation: 10.5 million hectares of cultivated land coverage
- Existing facilities degraded

Need huge investment!

Issues and Challenges

- Public funding & ODA did not meet high financial demand and mostly went to water sources (headworks, main canals & pipelines), only small fund were allocated to water distribution systems.
- User pay, polluter pay principle were stated in general policy but not strictly enforced in reality by appropriate legal documents.
- Current policy does not encourage private participation or mobilize user contribution in water infrastructure development & management.
- Water sector is among the last economic branches to adapt to the market economic and financial systems.

Issues and Challenges

- Low cost recovery due to:
 - High water losses, unaccounted-for water.
 - Low water fee/tariff
 - Poor performance of public service enterprises, high O&M cost, poor service
 - Users not willing to pay for poor service, low fee collection rate

Towards Water Sector Reform

- Decentralization: role of service providers and local communities
- Public investment policy: Adopting demand responsive approach, more fund for water distribution systems
- Diversifying investments: encouraging community & private participation in investment (low taxes, land...)
- State enterprise reform: corporation of public service enterprises
- More participation of water users: IT, PIM

Towards Water Sector Reform

- Creating special funds: credit funds, environment protection funds, etc.
- Making relevant legal documents to adopt the principle “water is an economic goods” stated in National Water Resources Strategy.
- Reducing Government subsidy: developing an appropriate water price/tariff schemes to obtain cost-recovery, polluter-pay principle
- Listening to the poor, having specialized targeted programmes to assist the poor

Concluding Remarks

- Public fund and ODA have been major sources of investment in water sector, but participation of water user and private sector in water infrastructure development and management are gradually becoming more important.
- Vietnam has to strive hard to achieve its target of water provision and sanitation for all by 2020.
- The water sector reform is a key solution to attract more funding and to obtain financial sustainability.



Thank you !